ECONOMIC UPDATE

GLOBAL & INDIAN

October 2017

Uniited States donates USD 600,000 to enhance negotiating skills of developing countries

The United States Government is contributing USD 600,000 (approximately CHF 570,000) to help developing and least-developed countries (LDCs) participate effectively in global trade negotiations. This donation to the WTO's Doha Development Agenda Global Trust Fund will finance training workshops for officials in Geneva and in the regions to help them better understand and implement WTO agreements. Since the creation of the fund in 2001, over 2,500 workshops have been organized.

WTO Director-General Roberto Azevêdo said: "I welcome the United States' donation. It will be important to help officials from developing and least-developed countries increase their knowledge and understanding of trade issues to enhance their connection with global markets."

The US Acting Permanent Representative, Christopher Wilson said: "The United States is pleased to again contribute to this important WTO vehicle for providing technical assistance to developing countries. We are confident that this assistance can help these WTO members implement WTO commitments in ways that will measurably advance their development objectives."Overall, the United States has donated approximately CHF 19 million to WTO trust funds over the last 15 years.

Intellectual property and innovation: inclusive innovation and MSME trade

Following up on past items on IP and innovation regularly added to the Council's agenda since 2012, the co-sponsors (Australia, the European Union, Japan, Switzerland, Chinese Taipei and the United States) invited members to share domestic experiences and examples of successful measures promoting inclusive innovation and MSME trade - in particular, how IP frameworks and innovation policy or programmes have helped MSMEs to integrate into global value chains.

They highlighted how intellectual property rights (IPRs) can increase and enhance international trade opportunities of MSMEs by helping to ensure that creators benefit from the fruits of their labours, securing a competitive advantage on the global market by providing exclusive right protection in the competition with much larger companies, and allowing differentiation from competitors through trademarks and geographical indicators (GIs).

A variety of different strategies and support measures in order to encourage and help MSMEs benefit from trade opportunities in the use of the IP-system were discussed, such as awareness creation of commercial relevance of IP for export-oriented creative and innovative enterprises, and the support of MSMEs in developing international IP-protection strategies.

Several examples were provided to showcase that businesses using IPRs in innovative and creative industries perform better than those not using them. Co-sponsors underlined this is particularly important taking into account that globally MSMEs account for more than 90% of business, while in low and middle-income countries they account for approximately 99% of business, from agriculture and textile manufacturing to development of hi-tech goods and services. The debate under this agenda item considered the relationship between the protection of IPRs and the public interest. Most delegations concurred in the call for a balanced regime which protects IPRs while also providing for the grant of compulsory licenses where necessary.

Following up on the discussion initiated at the Council's last meeting in June, the co-sponsors (Brazil, China, India and South Africa) noted that there had been important developments since then which justified the continuation of the debate, including the recent grant of compulsory licenses in Germany and Malaysia. They noted that the protection of IPRs had to be seen in the context of the underlying public policy objectives, as confirmed by Article 8 of the TRIPS Agreement. There was a need for a balanced regime that is supportive of innovative activity while also advancing the public interest of access to new innovations. The co-sponsors cautioned against patents and related monopoly rights in test data which, without sufficient use of balancing exceptions and limitations to protect the public interest, would allow companies to maintain high prices and exacerbate crises of access around the world, where many patients cannot afford medicines, and force governments with scarce health budgets to ration care.

These countries said there is a need for discussion in the TRIPS Council on the relationship between IP and the public interest and to broaden the understanding of how the IP system can be more responsive to public interest considerations. They invited WTO members to exchange views and experiences on measures within the IP system that they have adopted to promote the public interest, including compulsory licensing, patentability criteria, and IP and competition. See here.

Others held the view that the public interest considerations were too narrowly focused on the need to implement and apply exceptions and limitations to IPRs, rather than taking into account their positive contribution to innovation which was also in the public interest. They called for a more comprehensive approach to address challenges in the health sector, noting that the lack of access to medicines had many causes, including high taxes, tariffs and mark-ups, and that the importance of IPRs in this context was often overstated. They rejected any assumption that IPRs would contradict the public interest. On the contrary, there was a growing recognition of the importance of patent rights and the confirmation of a compulsory licence by Germany's Federal Court in July only confirmed that the system was balanced and was working.

WTO members agreed to submit, for the WTO General Council's adoption, a decision to extend until 31 December 2019 the period for the acceptance of the Protocol Amending the TRIPS Agreement.

The Council heard a number of members introducing recent legislative changes in their IP legislation. As such notifications increasingly become routine, they also open the floor for a constructive discussion among members. Thus, as a follow-up to the European Union's presentation of its new trademark law at the Council's meeting in June 2016, India submitted a series of questions to the European Union on the handling of "in transit" goods by customs authorities under Regulation (EU) No 608/2013.

The European Union said it was not in a position to provide concrete replies because it had received the request only shortly before the Council. Noting that there had not been a single case of detention of medicines in transit recently, it remained, however, committed to the ongoing bilateral consultation process with India.

Trump does not blame China for 'unfair' trade

US President Donald Trump has said he does not blame China for the "unfair" trade relationship between the countries, despite long railing against the economic imbalance. Speaking in Beijing, he gave China "credit" for working to benefit its citizens by taking advantage of the US. He spoke alongside China's president Xi Jinping on Thursday, as the US leader continued his tour through Asia.

The pair also signed $250bn (£190bn) worth of business deals. However, some of the agreements are non-binding, and it was not immediately clear how many represent new or final contracts.

The US president, who is visiting Beijing as part of a 12-day Asian trip, has long decried his country's trade deficit with China. The total trade relationship between the pair was worth $648bn last year, but trade was heavily skewed in China's favour with the US amassing a deficit of $310bn.

While still characterising the relationship as "very unfair" and "one-sided", Trump said on Thursday that China was not at fault, instead blaming previous US administrations."I don't blame China. After all, who can blame a country for being able to take advantage of another country for the sake of its citizens?" he said during a signing ceremony for the business deals.

"I give China great credit," he added. The $250bn of deals signed on Thursday included shale gas, liquefied natural gas and aviation projects. Executives from General Motors, GE and Goldman Sachs were among those at the signing ceremony.

However, Deborah Elms, executive director of the Asian Trade Centre, cautioned over the true value of the deals. She said agreements announced on trade missions frequently include "previously discussed items, things that are potential deals, items that might never come to pass and deals that will materialise in short order"."The headline figure is big and sounds good. It makes a splash. The details are less important, perhaps, to leaders, "Ms Elms also said the US president's apparent sympathies toward China on trade could fade."Trump has a history of being nice in person and immediately reverting to form once he leaves. I do not expect him to abandon his concerns about unfair China trade," she added.

Brexit: Ministers publish post-EU trade legislation

Details of the government's post-Brexit trade policy have been published. Ministers say the Trade Bill includes provisions for the UK to implement existing EU trade agreements and help ensure firms can still access foreign government contracts worth £1.3tn.It will also create a new trade remedies body to defend UK businesses against injurious trade practices. International Trade Secretary Liam Fox said firms needed "as much stability as possible" on the day the UK leaves.

But Labour questioned why the bill was being published on the day Parliament rises for a week-long recess, suggesting ministers wanted to "minimise scrutiny". And unions said workers' rights must not be sacrificed on the altar of doing "dodgy deals" with countries with insufficient employment protections.

The UK cannot sign or negotiate trade deals before its scheduled departure from the EU in March 2019. However, ministers say they can "scope" out future deals with key trade partners, such as the US, Australia and New Zealand.

Despite its publication, the Trade Bill, one of nine pieces of new legislation in the pipeline to prepare the ground for

Brexit, will not be debated by MPs until a later date.

Mr Fox said the point of the bill was to "provide as much stability as possible" for businesses on the day Britain leaves the EU and to prevent market instability.

But looking beyond that, the UK wanted to negotiate "more liberal" trade agreements to "provide even better market access than we have through our EU membership".

"One of our worries is that global trade is not opening up," he told BBC Radio 4's Today programme, and the UK wanted to "use its influence to get a more liberal global trading system" once it had left the EU.

But TUC general secretary Frances O'Grady said the "ramshackle bill" offered no protection for workers' rights and for public services like the NHS from foreign contractors."The Trade Bill must guarantee that the price of entry to a trade deal involving Britain is signing up to the strongest protections for workers and public services," she said.

On the eve of the bill's publication, one of Donald Trump's leading allies said he was optimistic that the UK and US will sign a free trade deal after Brexit.US Commerce Secretary Wilbur Ross told the BBC there had already been a "joint scoping exercise" in Washington in July on a free trade agreement and another similar meeting will be held in London next week."We're huge trading partners with each other and our economies are in many ways more similar to each other than either of us is to most of Europe," he said.

"So there's all the logic in the world for the US and the UK to be not only good trading partners, but FTA partners," he said. Mr Ross, who met Theresa May and other senior ministers during a two-day visit, identified continued "passporting" of financial services, compliance with EU food standards on GM crops and chlorine-washed chicken and future trade tariffs as areas that could pose problems in negotiations between the nations.

Chinese inflation tops expectations for October

China's consumer inflation rate accelerated to 1.9 percent in October from a year earlier, beating market expectations, the National Bureau of Statistics (NBS) said on Thursday. The consumer price index (CPI) had been expected to rise 1.8 percent on-year compared with an increase of 1.6 percent in September. Producer prices rose 6.9 percent on-year, unchanged from previous month's increase.

Analysts had predicted the PPI would rise 6.6 percent. China's economy recorded better-than-expected growth of nearly 6.9 percent through the first nine months of this year, buoyed largely by a recovery in its manufacturing and industrial sectors thanks to strong government infrastructure spending, a resilient property market and unexpected strength in exports.

But property and construction activity, two of the economy's main growth drivers, are starting to slow under the weight of government measures to cool heated housing prices and higher borrowing costs

Retailers are charging the same prices across US, boosting income inequality

By holding prices steady across all locations, retailers significantly increase the prices paid by poorer households relative to the rich as a percentage of total income. The practice winds up costing retail firms nearly 7 percent in profits on average. For the food stores studied, customers of stores in the lowest income decile pay about 0.7 percent higher prices than they would under flexible prices, while customers of stores in the top income decile pay roughly 9 percent lower prices, according to the research.

New research has found that U.S. retailers charge nearly identical prices across stores, despite wide variation in customer income and local demographics. And by holding prices steady across locations, retailers significantly increase the prices paid by poorer households relative to the rich as a percentage of total income. The uniform pricing also ends up costing firms nearly 7 percent of profits on average because they lose out on higher prices they could charge the wealthy and lower volume for lower-income consumers.

In a working paper filed with the National Bureau of Economic Research, economists Stefano DellaVigna of UC Berkeley and Matthew Gentzkow of Stanford University reported their findings. For the food stores studied, customers of stores in the lowest income decile pay about 0.7 percent higher prices than they would under flexible prices, while customers of stores in the top income decile pay roughly 9 percent lower prices, according to the research.

Gentzkow, who's been a professor at Stanford for two years, underscored that classical economics predicts that companies adjust prices in response to surges or contractions in demand or income. That is, firms take advantage of people who want a particular good more than others and exploit populations with higher income levels. The researchers studied data from tens of thousands of stores in the Nielsen Retailer Scanner to extract information on weekly prices from firms while using Consumer Panel data from the University of Chicago to study customer income trends. The team focused on three store types: 9,415 food stores, 9,977 drugstores and 3,288 mass merchandise stores.

"We view this sharp contrast between within- and between-chain results as one of our key findings. It suggests that chains are either varying their prices for too little across stores in response to income, or varying their prices far too much at the overall chain level," wrote the economists in their paper.

Their research found an increase in per capita income of $10,000 for localities — equivalent to a move from the 30th to the 75th percentile — is associated with an increase in price of just 0.72 percent.

Gradual rate hikes in the US are the best option, says Fed's Mester

I think a gradual path is the best strategy we have for prolonging the expansion," she said

A gradual increase in interest rates is the best way to deal with inflation and support the U.S. economy, Loretta Mester, president and CEO of the Federal Reserve Bank of Cleveland, told CNBC Thursday."I think a gradual path is the best strategy we have for prolonging the expansion," she said.

"Obviously we want to be responsible to changes in the economic outlook and as data comes in we are always revising the outlook," Loretta, a non-voting member of the Fed, said, mentioning she looks at inflation and inflation expectation numbers.

In October, the Federal Reserve said the U.S. economy had been expanding at a steady pace and suggested that another rate hike could take place in December. The central bank has also began rolling off its $4.5 trillion balance sheet under its quantitative easing program, in an attempt to normalize monetary policy.

The 5 most fragile countries exposed to higher interest rates

According to S&P The threat from monetary tightening is now more concrete than before, S&P Global said. Tighter monetary policy poses risks for emerging economies in a variety of ways

Turkey was the only sovereign nation that was always among the most vulnerable, regardless of the variable chosen Credit ratings agency S&P Global has reshuffled its list of the countries that are most negatively affected in an environment of rising interest rates.

Following years of ultra-loose monetary policy since the global financial crash, central banks across the world have started to reverse their quantitative easing programs and have even raised benchmark rates in some cases. Now, S&P global suggest that Turkey, Argentina, Pakistan, Egypt, and Qatar are the new "fragile five" and are the emerging market economies that are set to suffer the most with this new policy from developed nations.

Monetary conditions are "exceptionally accommodative" and, for some emerging markets, "the funding environment is now the most benign in living memory," Moritz Kraemer, S&P Global's managing director and sovereign global chief rating officer, said in a report on Monday."Yet the threat from monetary tightening is now more concrete than before," he noted.

The U.S. Federal Reserve has begun raising interest rates and the Bank of England took the same step last week, for the first time since 2007. The European Central Bank has also announced that it will reduce its purchase of government and corporate bonds starting next year. Tighter monetary policy poses risks for emerging economies in a variety of ways. One is that it increases borrowing costs for these nations as the U.S. dollar usually rises as rates are hiked, and these countries borrow in dollars. Another is that raising rates means that American investors pour their money back into their home country in anticipation of higher yields.

In its assessment, S&P Global used seven variables, including current account balance as a percentage of growth and the percentage of debt denominated in foreign currency as part of the total debt the countries possess. Turkey was the only sovereign nation that was always among the most vulnerable, regardless of the variable chosen, the rating agency noted.

"Qatar has a weak position on most flow variables, but is second only to Saudi Arabia on having a strong external asset balance sheet. Some observers might therefore argue that, because of its deep pockets, Qatar should not be in the new Fragile Five. If we exclude Qatar from that group, Colombia would take its place," Kraemer said in the report. In 2015, Brazil, India, Indonesia, South Africa, and Turkey were the Fragile Five

.